

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 3803-04  
BILL NO.: SCS for HCS for HB 1644  
SUBJECT: Retirement  
TYPE: Original  
DATE: May 4, 2000

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
All State Funds	(\$1,509,235)	(\$2,705,650)	(\$2,705,650)
Highway Fund	(\$168,912)	(\$341,916)	(\$346,104)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$1,678,147)</b>	<b>(\$3,047,566)</b>	<b>(\$3,051,754)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>School Districts *</b>	<b>(\$3,253,750)*</b>	<b>(\$3,253,750)*</b>	<b>(\$3,253,750)*</b>

**\*DOES NOT REFLECT REDUCTION IN SURPLUS OF PUBLIC SCHOOL RETIREMENT SYSTEM (PSRS) OF AT LEAST \$525,725,000. PSRS FUNDS ARE NOT CONSIDERED LOCAL FUNDS FOR FISCAL NOTE PURPOSES.**

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

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**FISCAL ANALYSIS**

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**ASSUMPTION**

Officials of the **Joint Committee on Public Employee Retirement** have reviewed this proposal and have determined that it represents a “substantial proposed change” in future plan benefits as defined in section 105.660(5), RSMo. An actuarial cost statement was provided for the original proposal. Although the amendments will have a fiscal impact on the system, they will not require an amended actuarial cost statement.

Officials of the **Office of Administration** assume any fiscal impact as a result of the proposal would be determined by the affected retirement systems.

**Public School Retirement System (PSRS)** officials assume the proposal would provide the following benefit improvements for PSRS:

- Extend the 25-and-out retirement option for an additional three years.
- Change the first cost-of-living adjustment (COLA) effective date to the third January first following retirement for members retiring on or after July 1, 2000.
- Increase the COLA cap from 75% to 80%.
- Provide a 3.5% increase for retirees and beneficiaries of deceased retirees whose retirement date was prior to July 1, 2000.
- Provide for current survivor benefit amounts to be paid to all beneficiaries receiving survivor benefits.
- Provide COLA increases on survivor benefit payments.

An actuarial study obtained by PSRS indicates that the total cost of these provisions would be \$525,723,000. As of June 30, 1999, PSRS was overfunded by \$836,726,000. Therefore, the total cost would represent a decrease in the system’s surplus. There would be no additional contributions required of local school districts.

**Oversight notes that while there is significant fiscal impact to the retirement system for these provisions, there is no immediate cost to local school districts since their contribution rates would not be increased.** Funds of the retirement system are not considered local funds for fiscal note purposes. There will be long-term fiscal impact as a result of this legislation, since reduction of the system’s surplus will contribute to any need for increased contributions in the future.

**ASSUMPTION** (continued)

In addition, PSRS officials assume the proposal would provide the following benefit improvements for the Nonteacher School Employee Retirement System (NTRS):

- A three-year final average salary period
- Increase the formula factor from 1.45% to 1.51%
- Provide for full retirement if age plus service equals 80
- Extend the 25-and-out provisions for three years
- Increase the formula under the 25-and-out provisions
- Increase the maximum employee contribution rate to 5%
- Across the board increase of 3.4% for retirees and beneficiaries of deceased retirees
- Provide a .4% increase for those retiring on or after July 1, 2000, who are less than minimum age for social security retirement eligibility and who have at least 30 years of credit or retire under the rule of 80. This additional payment would be made until the retiree reaches the minimum age for social security retirement eligibility.

An actuarial analysis indicates that the total cost of these provisions would be \$101,467,000. As of June 30, 1999, the NTRS was overfunded by \$166,796,000. However, because the normal cost component would exceed the current contribution rate, the contribution rate would be increased from the current 9.0% (4.5% each from local school districts and employee members) to a total of 9.95% (4.975% each from local school districts and employee members).

Based on a covered payroll as of June 30, 1999 of \$685 million and the increase in the contribution required from local school districts of 0.475%, **Oversight** calculates that annual contributions by school districts for these provisions would increase by \$3,253,750. Because the proposal has an emergency clause, a full year of costs is reflected in FY 2001 as well.

Officials from the **Department of Transportation (MoDOT)** assumed there would be a fiscal impact to MoDOT. Currently, MoDOT pays monthly costs of \$0.17 cents per \$1,000 of coverage for the \$15,000 state paid life insurance. Increasing the coverage to each employee's annual salary would result in total coverage for MoDOT employees of \$216,872,767. Total premiums for this coverage would be \$36,868 per month (\$216,872,767 times \$0.17/\$1,000). MoDOT's currently monthly premiums are \$16,863 (\$15,000 in coverage times \$0.17/\$1,000 times 6,613 employees). Therefore, the annual increase in premium costs would be \$240,060 (\$36,868 less \$16,863 equals \$20,005 times 12 months). Assuming an effective date of January 1, 2001, the total fiscal impact to the Highway Fund would be \$120,030 for FY 2001 and \$240,060 for FY 2002 and FY 2003. Although the proposal allows the Highway Commission to elect whether or not to provide the insurance, MoDOT assumes the Commission would elect to do so.

#### ASSUMPTION (continued)

In response to a proposal containing the life insurance provisions in this legislation, officials

from the **Department of Public Safety - Missouri Highway Patrol (MHP)** assumed the proposal would increase premium costs. Total insurance coverage after increasing individual coverage to annual salary amounts would be \$76,298,704. Currently MHP pays a premium of \$0.17 per month per \$1,000 in coverage, and they assume the rate would not change. MHP's currently monthly premiums are \$5,480 (\$15,000 in coverage times \$0.17/\$1,000 times 2,149 employees). Assuming a 2.5% annual inflation rate in the salary base, monthly premiums would increase by \$8,147 in FY 2001 (to \$13,627 per month), \$8,488 in FY 2002 (to \$13,968 per month), and \$8,837 in FY 2003 (to \$14,317 per month). Assuming an effective date of January 1, 2001, the total fiscal impact to the Patrol would be \$48,882 for FY 2001, \$101,856 for FY 2002, and \$106,044 for FY 2003. For fiscal note purposes, the net impact to the Highway Patrol is reflected in the State Highway Fund since the majority of personal services costs for the Patrol are charged to that fund.

Officials of the **Highway and Transportation Employees' and Highway Patrol Retirement System** assume the proposal would have no fiscal impact to their system.

Officials of the **Missouri State Employees' Retirement System (MOSERS)** assume the proposal would modify the basic life insurance provisions for state employees and would allow disability members to also receive a temporary annuity under the MSEP 2000 (the new retirement plan enacted in the prior legislative session). MOSERS officials estimate the cost to implement the proposed basic life insurance benefit change for 48,606 active employees would be approximately \$2.4 million per year. Increasing the present life insurance benefit from \$15,000 to one times annual salary, with a \$15,000 minimum, would increase the annual premium by \$2,392,650. The State's current annual premium equals \$2,554,731 (48,606 employees x \$15,000 / \$1,000 x .292 x 12 months). The new annual premium would be \$4,947,381. Using the covered state payroll of \$1,388,154,000, divided by \$1,000 equals \$1,388,154 in coverage in thousands, multiplied by a premium of .297 per \$1,000 of coverage, multiplied by 12 months is \$4,947,381. Therefore, the annual increase in premiums would be \$2,392,650 (\$4,947,381 less the \$2,554,731 current premium). Assuming an effective date for this provision of January 1, 2001, costs for FY 2001 would be \$1,196,325. The cost of providing for a temporary annuity to disabled members without regard to any prior receipt of federal Social Security Disability Benefits would result in an increase in the state's contribution rate to MOSERS from 11.59% to 11.61%. Based on a valuation payroll of \$1,564,551,532, the annual increase in contributions would approximate \$312,910.

	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - State Government</u>			
<b>ALL STATE FUNDS</b>			
<u>Costs-State Agencies</u>			
Increased basic life insurance	(\$1,196,325)	(\$2,392,650)	(\$2,392,650)

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	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - State Government</u>			
Increased contributions to MOSERS	<u>(\$312,910)</u>	<u>(\$312,910)</u>	<u>(\$312,910)</u>
Total <u>costs</u> - State Agencies	<u>(\$1,509,235)</u>	<u>(\$2,705,560)</u>	<u>(\$2,705,560)</u>

## **HIGHWAY FUND**

<u>Costs-MoDOT</u>			
Increased basic life insurance	(\$120,030)	(\$240,060)	(\$240,060)
<u>Costs-MHP</u>			
Increased basic life insurance	<u>(\$48,882)</u>	<u>(\$101,856)</u>	<u>(\$106,044)</u>

<b>ESTIMATED NET EFFECT ON HIGHWAY FUND</b>	<b><u>(\$168,912)</u></b>	<b><u>(\$341,916)</u></b>	<b><u>(\$346,104)</u></b>
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	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - Local Government</u>			

## **SCHOOL DISTRICTS**

<u>Costs</u> - increased contributions to PSRS	<b><u>(\$3,253,750)*</u></b>	<b><u>(\$3,253,750)*</u></b>	<b><u>(\$3,253,750)*</u></b>
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## FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

## DESCRIPTION

The proposal would make various benefit improvements to the Public School Retirement System, including extending the 25-and-out retirement option for an additional three years, changing the first cost-of-living adjustment (COLA) effective date to the third January first following retirement for members retiring on or after July 1, 2000; increasing the COLA cap from 75% to 80%; providing a 3.5% increase for retirees and beneficiaries of deceased retirees

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whose retirement date was prior to July 1, 2000; providing current survivor benefit amounts to be paid to all beneficiaries receiving survivor benefits; and providing for cost-of-living adjustments for survivor benefits. In addition, the proposal would make revisions to the Nonteacher School Employee Retirement System, including revising the definition of final average salary, increasing the maximum allowable contribution rate from 4.5% to 5%, implementing the rule of 80, increasing the multiplier from 1.45% to 1.51%, extending window for the 25-and-out option, providing a one-time benefit to certain members, and creating a temporary multiplier for certain members.

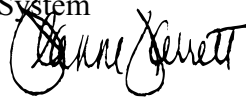
The proposal would increase life insurance coverage for state employees from \$15,000 to one times annual salary (with a \$15,000 minimum) and would provide for a temporary annuity for disabled members of the Missouri State Employees' Retirement System without regard to prior receipt of Social Security Disability Benefits.

This proposal contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement  
Office of Administration  
Public School Retirement System  
Missouri State Employees' Retirement System  
Department of Transportation  
Missouri Highway Patrol  
Highway and Transportation Employees' Retirement System

  
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